

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>		Printed Name		License Number

VILLAGE OF PAW PAW

Van Buren County, Michigan

FINANCIAL STATEMENTS

February 28, 2007

VILLAGE OF PAW PAW

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**BERTHIAUME
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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Paw Paw, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, and each major fund of the Village of Paw Paw as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Paw Paw's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, and each major fund of the Village of Paw Paw as of February 28, 2007, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The schedule of pension plan funding progress and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Paw Paw's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Berthiaume & Co.

July 18, 2007

BASIC FINANCIAL STATEMENTS

VILLAGE OF PAW PAW

STATEMENT OF NET ASSETS

February 28, 2007

	<i>Primary Government</i>			
	<i>Governmental</i>	<i>Business-type</i>		<i>Component</i>
	<i>Activities</i>	<i>Activities</i>	<i>Total</i>	<i>Unit - DDA</i>
Assets:				
Cash and cash equivalents	\$ 1,475,514	\$ 1,626,758	\$ 3,102,272	\$ 447,914
Receivables	770,421	700,524	1,470,945	341,680
Internal balances	34,924	(34,924)	-	-
Inventory	-	58,459	58,459	-
Capital assets:				
Nondepreciable capital assets	-	258,091	258,091	-
Depreciable capital assets, net	1,492,395	9,018,723	10,511,118	56,368
Total assets	3,773,254	11,627,631	15,400,885	845,962
Liabilities:				
Accounts payable and accrued expenses	342,918	357,421	700,339	7,759
Long-term liabilities:				
Due within one year	-	180,000	180,000	-
Due in more than one year	199,314	1,761,615	1,960,929	-
Total liabilities	542,232	2,299,036	2,841,268	7,759
Net assets:				
Invested in capital assets, net of related debt	1,492,395	7,399,474	8,891,869	56,368
Restricted for:				
Streets	329,093	-	329,093	-
Unrestricted	1,409,534	1,929,121	3,338,655	781,835
Total net assets	\$ 3,231,022	\$ 9,328,595	\$ 12,559,617	\$ 838,203

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

STATEMENT OF ACTIVITIES

Year Ended February 28, 2007

		<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Functions/Programs	<u>Expenses</u>				
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 249,316	\$ 547,085	\$ -	\$ -	\$ 297,769
Public safety	899,719	42,286	30,498	-	(826,935)
Public works	1,163,993	154,549	486,696	-	(522,748)
Community and economic development	34,497	2,950	-	-	(31,547)
Recreation and culture	193,129	23,451	15,361	-	(154,317)
Total governmental activities	<u>2,540,654</u>	<u>770,321</u>	<u>532,555</u>	<u>-</u>	<u>(1,237,778)</u>
<i>Business-type activities:</i>					
Electric	\$ 3,384,412	\$ 3,037,026	\$ -	\$ -	\$ (347,386)
Sewer	808,997	712,675	-	-	(96,322)
Water	599,103	609,147	-	-	10,044
Total business-type activities	<u>4,792,512</u>	<u>4,358,848</u>	<u>-</u>	<u>-</u>	<u>(433,664)</u>
Total primary government	<u>\$ 7,333,166</u>	<u>\$ 5,129,169</u>	<u>\$ 532,555</u>	<u>\$ -</u>	<u>\$(1,671,442)</u>
COMPONENT UNITS:					
Downtown development authority	<u>\$ 142,275</u>	<u>\$ 15,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (126,504)</u>

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			
	<i>Governmental</i>	<i>Business-</i>		<i>Component</i>
	<i>Activities</i>	<i>type</i>	<i>Total</i>	<i>Unit - DDA</i>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Unit - DDA</u>
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (1,237,778)	\$ (433,664)	\$ (1,671,442)	\$ (126,504)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	705,443	-	705,443	-
Property taxes, levied for streets	282,839	-	282,839	-
Property taxes, captured by DDA	-	-	-	260,137
Payment in lieu of property taxes	160,810	-	160,810	-
Franchise fees	18,441	-	18,441	-
Grants and contributions not restricted to specific programs	343,467	-	343,467	-
Unrestricted investment earnings	59,929	104,394	164,323	21,779
Special item - Gain on sale of capital asset	2,792	-	2,792	-
Total general revenues and special item	<u>1,573,721</u>	<u>104,394</u>	<u>1,678,115</u>	<u>281,916</u>
Change in net assets	335,943	(329,270)	6,673	155,412
Net assets, beginning of year	<u>2,895,079</u>	<u>9,657,865</u>	<u>12,552,944</u>	<u>682,791</u>
Net assets, end of year	<u>\$ 3,231,022</u>	<u>\$ 9,328,595</u>	<u>\$ 12,559,617</u>	<u>\$ 838,203</u>

VILLAGE OF PAW PAW

GOVERNMENTAL FUNDS

BALANCE SHEET

February 28, 2007

	<u>Major Governmental Funds</u>		<i>Nonmajor</i>	<i>Total</i>
	<i>General</i>	<i>Revolving</i>	<i>Governmental</i>	<i>Governmental</i>
	<i>Fund</i>	<i>Loan</i>	<i>Funds</i>	<i>Funds</i>
		<i>Fund</i>		
Assets:				
Cash and cash equivalents	\$ 616,656	\$ 471,408	\$ 352,069	\$ 1,440,133
Taxes receivable	52,702	-	21,080	73,782
Accounts receivable	14,041	-	-	14,041
Notes receivable	-	300,799	-	300,799
Due from other governmental units	299,113	-	41,322	340,435
Due from component unit	-	3,290	-	3,290
Due from other funds	104,653	9,873	10,323	124,849
Advance receivable from other fund	111,025	-	-	111,025
Total assets	<u>\$ 1,198,190</u>	<u>\$ 785,370</u>	<u>\$ 424,794</u>	<u>\$ 2,408,354</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 88,559	\$ -	\$ 19,195	\$ 107,754
Accrued expenses	45,366	891	3,985	50,242
Due to other governmental units	1,868	-	457	2,325
Due to component unit	125,634	-	50,175	175,809
Due to other funds	82,455	-	20,195	102,650
Deferred revenue	-	300,799	-	300,799
Total liabilities	<u>343,882</u>	<u>301,690</u>	<u>94,007</u>	<u>739,579</u>
Fund balances:				
Reserved for:				
Long-term advance	111,025	-	-	111,025
Risk pool deposit	66,220	-	-	66,220
Unreserved:				
General fund	677,063	-	-	677,063
Special revenue funds	-	483,680	330,787	814,467
Total fund balances	<u>854,308</u>	<u>483,680</u>	<u>330,787</u>	<u>1,668,775</u>
Total liabilities and fund balances	<u>\$ 1,198,190</u>	<u>\$ 785,370</u>	<u>\$ 424,794</u>	<u>\$ 2,408,354</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

February 28, 2007

Total fund balances for governmental funds \$ 1,668,775

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	1,770,666	
Less accumulated depreciation	<u>(671,606)</u>	1,099,060

Deferred revenues reported in the governmental funds are recognized as
revenues for the governmental activities.

Loans	300,799
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Long-term liabilities are not due and payable in the current year and
therefore are not reported in the governmental funds:

Compensated absences payable	(182,226)
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The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets.

<u>344,614</u>

Net assets of governmental activities

<u><u>\$ 3,231,022</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 28, 2007

	<u>Major Governmental Funds</u>			
	<u>General</u>	<u>Revolving</u>	<u>Nonmajor</u>	<u>Total</u>
	<u>Fund</u>	<u>Loan</u>	<u>Governmental</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
Revenues:				
Property taxes	\$ 838,236	\$ -	\$ 310,856	\$ 1,149,092
Licenses and permits	58,561	-	-	58,561
State grants	547,266	-	239,350	786,616
Contributions from other units	47,300	-	53,546	100,846
Charges for services	562,541	-	18,252	580,793
Fines and forfeits	22,665	-	-	22,665
Interest and rents	42,205	20,771	13,969	76,945
Other revenue	62,673	104,540	15,904	183,117
Total revenues	<u>2,181,447</u>	<u>125,311</u>	<u>651,877</u>	<u>2,958,635</u>
Expenditures:				
Current				
General government	228,456	58,317	-	286,773
Public safety	855,212	-	-	855,212
Public works	586,212	-	371,266	957,478
Community and economic development	34,497	-	-	34,497
Recreation and culture	132,999	-	49,734	182,733
Other	142,062	-	-	142,062
Capital outlay	212,002	-	-	212,002
Loan payment to General Fund		-		
Principal	-	-	45,192	45,192
Interest and fees	-	-	1,290	1,290
Total expenditures	<u>2,191,440</u>	<u>58,317</u>	<u>467,482</u>	<u>2,717,239</u>
Excess (deficiency) of revenues over expenditures	<u>(9,993)</u>	<u>66,994</u>	<u>184,395</u>	<u>241,396</u>
Other financing sources (uses):				
Transfers from other funds	-	-	10,000	10,000
Transfers to other funds	(15,000)	-	-	(15,000)
Total other financing sources (uses)	<u>(15,000)</u>	<u>-</u>	<u>10,000</u>	<u>(5,000)</u>
Net change in fund balances	(24,993)	66,994	194,395	236,396
Fund balances, beginning of year	<u>879,301</u>	<u>416,686</u>	<u>136,392</u>	<u>1,432,379</u>
Fund balances, end of year	<u>\$ 854,308</u>	<u>\$ 483,680</u>	<u>\$ 330,787</u>	<u>\$ 1,668,775</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year Ended February 28, 2007

Net change in fund balances - total governmental funds \$ 236,396

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	184,245	
Less depreciation expense	<u>(54,842)</u>	129,403

Collection of certain items recorded as deferred revenue are considered current financial resources in the governmental funds. In the statement of activities, these items have been recorded as revenue.

Loans	(89,791)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	27,923
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The net revenue (expense) of the internal service fund is reported with governmental activities.

<u>32,012</u>

Change in net assets of governmental activities \$ 335,943

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

February 28, 2007

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Motor Pool Fund</i>
Assets:					
Current assets:					
Cash and cash equivalents	\$ 830,918	\$ 692,821	\$ 103,019	\$ 1,626,758	\$ 35,381
Accounts receivable	526,436	101,860	72,228	700,524	38,074
Due from other funds	35,529	40,158	38,916	114,603	3,056
Inventory	53,861	-	4,598	58,459	-
Total current assets	<u>1,446,744</u>	<u>834,839</u>	<u>218,761</u>	<u>2,500,344</u>	<u>76,511</u>
Noncurrent assets:					
Capital assets:					
Nondepreciable capital assets	30,118	227,123	850	258,091	-
Depreciable capital assets, net	1,359,106	4,539,467	3,120,150	9,018,723	393,335
Advance receivable from other funds	804,704	-	-	804,704	-
Total noncurrent assets	<u>2,193,928</u>	<u>4,766,590</u>	<u>3,121,000</u>	<u>10,081,518</u>	<u>393,335</u>
Total assets	<u>3,640,672</u>	<u>5,601,429</u>	<u>3,339,761</u>	<u>12,581,862</u>	<u>469,846</u>
Liabilities:					
Current liabilities:					
Current portion of long-term debt	-	30,000	150,000	180,000	-
Accounts payable	205,821	5,415	31,328	242,564	1,614
Accrued expenses	10,576	7,054	5,879	23,509	4,866
Due to component unit	-	-	-	-	308
Due to other funds	-	38,502	-	38,502	101,356
Deposits payable	51,590	5,695	5,365	62,650	-
Accrued interest payable	-	13,055	15,643	28,698	-
Total current liabilities	<u>267,987</u>	<u>99,721</u>	<u>208,215</u>	<u>575,923</u>	<u>108,144</u>
Noncurrent liabilities:					
Advance payable to other funds	-	590,920	324,809	915,729	-
Compensated absences payable	37,434	16,546	10,295	64,275	17,088
Long-term debt	-	605,000	1,092,340	1,697,340	-
Total noncurrent liabilities	<u>37,434</u>	<u>1,212,466</u>	<u>1,427,444</u>	<u>2,677,344</u>	<u>17,088</u>
Total liabilities	<u>305,421</u>	<u>1,312,187</u>	<u>1,635,659</u>	<u>3,253,267</u>	<u>125,232</u>
Net assets:					
Invested in capital assets, net of related debt	1,389,224	4,131,590	1,878,660	7,399,474	393,335
Unrestricted	<u>1,946,027</u>	<u>157,652</u>	<u>(174,558)</u>	<u>1,929,121</u>	<u>(48,721)</u>
Total net assets	<u>\$ 3,335,251</u>	<u>\$ 4,289,242</u>	<u>\$ 1,704,102</u>	<u>\$ 9,328,595</u>	<u>\$ 344,614</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended February 28, 2007

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Motor Pool Fund</i>
Operating revenues:					
Charges for services	\$ 2,974,914	\$ 687,245	\$ 521,909	\$ 4,184,068	\$ -
Penalties	17,209	3,352	3,558	24,119	-
Hydrant rental	-	-	54,600	54,600	-
Equipment rental	-	-	-	-	386,444
Other	44,903	22,078	29,080	96,061	35
Total operating revenues	3,037,026	712,675	609,147	4,358,848	386,479
Operating expenses:					
Personnel	270,773	125,332	130,989	527,094	90,136
Fringe benefits	98,311	44,974	52,890	196,175	55,540
Supplies	97,356	18,600	35,228	151,184	59,982
Property tax equivalents	145,000	-	-	145,000	-
Contracted services	52,158	21,381	4,274	77,813	12,442
Purchase of power	2,329,582	-	-	2,329,582	-
Administrative expense	174,951	140,000	140,000	454,951	46,400
Telephone	186	513	241	940	186
Dues and memberships	9,206	2,373	4,358	15,937	70
Education and training	3,333	1,164	1,387	5,884	-
Utilities	-	64,088	7,118	71,206	2,795
Repairs and maintenance	17,383	78,238	53,946	149,567	43,577
Equipment rental	89,678	30,095	42,408	162,181	-
Other services and supplies	2,501	3,717	735	6,953	1,104
Depreciation	93,994	211,350	95,498	400,842	51,933
Total operating expenses	3,384,412	741,825	569,072	4,695,309	364,165
Operating income (loss)	(347,386)	(29,150)	40,075	(336,461)	22,314
Non-operating revenues (expenses):					
Interest income	65,952	30,595	7,847	104,394	2,198
Gain on sale of capital assets	-	-	-	-	2,500
Interest expense	-	(67,172)	(30,031)	(97,203)	-
Total non-operating revenues (expenses)	65,952	(36,577)	(22,184)	7,191	4,698
Net income (loss) before transfers	(281,434)	(65,727)	17,891	(329,270)	27,012
Transfer from other funds	-	-	-	-	5,000
Net income (loss)	(281,434)	(65,727)	17,891	(329,270)	32,012
Net assets, beginning of year	3,616,685	4,354,969	1,686,211	9,657,865	312,602
Net assets, end of year	\$ 3,335,251	\$ 4,289,242	\$ 1,704,102	\$ 9,328,595	\$ 344,614

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended February 28, 2007

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Motor Pool Fund</i>
Cash flows from operating activities:					
Cash received from customers	\$ 2,899,910	\$ 670,980	\$ 556,804	\$ 4,127,694	\$ 35
Cash received (payments) from interfund services	47,581	(29,861)	61,770	79,490	393,590
Cash payments to employees	(267,191)	(123,880)	(130,411)	(521,482)	(90,880)
Cash payments to suppliers for goods and services	<u>(2,995,987)</u>	<u>(403,199)</u>	<u>(321,827)</u>	<u>(3,721,013)</u>	<u>(263,160)</u>
Net cash provided (used) by operating activities	<u>(315,687)</u>	<u>114,040</u>	<u>166,336</u>	<u>(35,311)</u>	<u>39,585</u>
Cash flows from non-capital financing activities:					
Operating transfers in	-	-	-	-	5,000
Principal collected on long-term advance receivable	16,721	-	-	16,721	-
Principal paid on long-term advance payable	<u>-</u>	<u>(16,721)</u>	<u>(58,549)</u>	<u>(75,270)</u>	<u>-</u>
Net cash provided (used) by non-capital financing activities	<u>16,721</u>	<u>(16,721)</u>	<u>(58,549)</u>	<u>(58,549)</u>	<u>5,000</u>
Cash flows from capital and related financing activities:					
Acquisitions of capital assets	(55,955)	(9,772)	(41,580)	(107,307)	(113,844)
Gain on sale of capital assets	-	-	-	-	2,500
Principal payments on capital debt	-	(25,000)	(150,000)	(175,000)	-
Interest paid on capital debt	<u>-</u>	<u>(67,172)</u>	<u>(30,031)</u>	<u>(97,203)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(55,955)</u>	<u>(101,944)</u>	<u>(221,611)</u>	<u>(379,510)</u>	<u>(111,344)</u>
Cash flows from investing activities:					
Interest received	<u>65,952</u>	<u>30,595</u>	<u>7,847</u>	<u>104,394</u>	<u>2,198</u>
Net cash provided by investing activities	<u>65,952</u>	<u>30,595</u>	<u>7,847</u>	<u>104,394</u>	<u>2,198</u>
Net increase (decrease) in cash and cash equivalents	(288,969)	25,970	(105,977)	(368,976)	(64,561)
Cash and cash equivalents, beginning of year	<u>1,119,887</u>	<u>666,851</u>	<u>208,996</u>	<u>1,995,734</u>	<u>99,942</u>
Cash and cash equivalents, end of year	<u>\$ 830,918</u>	<u>\$ 692,821</u>	<u>\$ 103,019</u>	<u>\$ 1,626,758</u>	<u>\$ 35,381</u>

continued

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended February 28, 2007

**Reconciliation of operating income (loss)
to net cash provided (used) by operating
activities:**

Operating income (loss)	\$ (347,386)	\$ (29,150)	\$ 40,075	\$ (336,461)	\$ 22,314
Adjustments:					
Depreciation	93,994	211,350	95,498	400,842	51,933
Change in assets and liabilities:					
Accounts receivable	(149,328)	(42,086)	1,343	(190,071)	(10,194)
Due from other funds	47,581	(19,924)	7,170	34,827	634
Inventory	5,748	-	(2,202)	3,546	-
Accounts payable	20,223	324	24,456	45,003	(41,998)
Accrued expenses	(2,313)	2,079	363	129	626
Due to component unit	-	-	-	-	308
Due to other funds	-	(9,937)	-	(9,937)	16,706
Deposits payable	12,212	391	914	13,517	-
Accrued interest payable	-	(459)	(1,859)	(2,318)	-
Compensated absences payable	3,582	1,452	578	5,612	(744)
Net cash provided (used) by operating activities	<u>\$ (315,687)</u>	<u>\$ 114,040</u>	<u>\$ 166,336</u>	<u>\$ (35,311)</u>	<u>\$ 39,585</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Paw Paw conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component unit. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component unit discussed below is included in the Village's reporting entity because of its operational or financial relationship with the Village.

Discretely Presented Component Unit - The component unit column in the government-wide financial statements includes the financial data of the Village's one component unit. This unit is reported in a separate column to emphasize that it is legally separate from the Village. The component unit is described as follows:

Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent the deterioration in the downtown district, encourage historical preservation and to promote economic growth within the downtown district. The DDA's governing body, which consists of thirteen members, is selected by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority.

Joint Venture – The Village is a member of the Paw Paw Fire Department which provides fire protection to the residents of the Village and four surrounding Townships. The Village no longer provides funding for the Fire Department's operation since the Township of Paw Paw receives a millage for the operation of the Fire Department and contributes the Village's portion. The Village retains 1/5 ownership rights in the capital assets acquired and reported by the Fire Department. Complete financial statements for the Fire Department can be obtained from administrative offices at 111 East Michigan Avenue, Paw Paw, Michigan.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component unit. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village’s net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

The Village reports the following major governmental funds:

The **General Fund** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The **Revolving Loan Fund** accounts for monies designated to make loans to local businesses.

The Village reports the following major proprietary funds:

The **Electric Enterprise Fund** is used to account for the operations of the Village's electric department that provides electric services to most residents of the Village on a user charge basis.

The **Sewer Enterprise Fund** is used to account for the operations of the Village's sewer department that provides sewer services to most residents of the Village on a user charge basis.

The **Water Enterprise Fund** is used to account for the operations of the Village's water department that provides water services to most residents of the Village on a user charge basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less to be cash equivalents. Investments, if any, are stated at fair value.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2007

Receivables – All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances, if any, are immaterial at year end.

Inventories – Inventories are valued at cost on a first-in first-out basis.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$1,000 and an estimated useful life in excess of two years. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) of the governmental funds are capitalized if acquired since March 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Furniture and equipment	5-10 years
Machinery and equipment	5-25 years
Public domain infrastructure	25 years
Site improvements	20 years
System infrastructure	5-50 years
Vehicles	5-8 years

Compensated Absences – Individual employees have a vested right to receive payments for unused sick and vacation benefits under formulas and conditions specified in Village policies. Accumulated sick and vacation benefits of governmental funds are recorded on the statement of net assets and not on the governmental fund balance sheets because they are not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds have been reported in the statement of net assets of the individual enterprise funds.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2007

Property Taxes – Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on or before September 14 with the final collection date of February 28 before they are added to the County tax rolls. The 2006 valuation of the Village totaled \$73,442,509, which taxes were levied at 11.3252 mills for the Village's operating purposes and 4.5299 mills for streets.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The annual budget is prepared by the Village management and adopted by the Village Council; subsequent amendments are approved by the Village Council. Budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis of accounting which is used to reflect actual results. Governmental funds are under formal budgetary control. Budgetary control is exercised at the department level. Unexpended appropriations lapse at year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year, the Village did not incur expenditures that were in excess of the amounts budgeted.

State Construction Code Act:

The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at March 1, 2006	\$ -
Current year building permit revenue	34,840
Related expenses:	
Direct costs	52,453
Cumulative surplus at February 28, 2007	<u>\$ -</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2007

NOTE 3: CASH AND CASH EQUIVALENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village does not have a deposit policy for custodial credit risk. At year-end, the Village had \$3,562,160 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories. At year end, the Village had no investments.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2007 was as follows:

	<i>March 1, 2006</i>	<i>Additions</i>	<i>Retirements</i>	<i>February 28, 2007</i>
Governmental activities:				
Depreciable capital assets				
Buildings and improvements	\$ 1,141,445	\$ -	\$ -	\$ 1,141,445
Furniture and equipment	62,227	17,748	-	79,975
Infrastructure	268,496	8,293	-	276,789
Machinery and equipment	291,481	40,637	-	332,118
Site improvements	250,403	158,204	-	408,607
Vehicles	800,554	73,207	-	873,761
Total depreciable capital assets	2,814,606	298,089	-	3,112,695
Accumulated depreciation	(1,513,525)	(106,775)	-	(1,620,300)
Governmental activities, capital assets, net	\$ 1,301,081	\$ 191,314	\$ -	\$ 1,492,395

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

	<u>March 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>February 28, 2007</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 258,091	\$ -	\$ -	\$ 258,091
Depreciable capital assets				
Buildings and improvements	1,216,803	-	-	1,216,803
Furniture and equipment	151,166	-	-	151,166
Machinery and equipment	1,583,347	-	-	1,583,347
Utility system				
Electric system	2,749,791	55,955	-	2,805,746
Sewer system	7,024,430	9,772	-	7,034,202
Water system	4,329,212	41,580	-	4,370,792
Total depreciable capital assets	17,054,749	107,307	-	17,162,056
Accumulated depreciation	(7,742,491)	(400,842)	-	(8,143,333)
Depreciable capital assets, net	9,312,258	(293,535)	-	9,018,723
Business-type activities, capital assets, net	<u>\$ 9,570,349</u>	<u>\$ (293,535)</u>	<u>\$ -</u>	<u>\$ 9,276,814</u>
Component unit - DDA:				
Depreciable capital assets				
Buildings	\$ -	\$ 2,900	\$ -	\$ 2,900
Infrastructure	55,734	-	-	55,734
Total depreciable capital assets	55,734	2,900	-	58,634
Accumulated depreciation	-	(2,266)	-	(2,266)
Component unit - DDA, capital assets, net	<u>\$ 55,734</u>	<u>\$ 634</u>	<u>\$ -</u>	<u>\$ 56,368</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
General government	\$ 1,915	\$ -	\$ -
Public safety	9,813	-	-
Public works	84,651	-	-
Recreation and culture	10,396	-	-
Electric	-	93,994	-
Sewer	-	211,350	-
Water	-	95,498	-
Downtown development authority	-	-	2,266
Total depreciation	<u>\$ 106,775</u>	<u>\$ 400,842</u>	<u>\$ 2,266</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE 5: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at February 28, 2007 is as follows:

		<u>Receivable</u>	<u>Payable</u>
General Fund	Major Street Fund	\$ 546	\$ (546)
General Fund	Wine and Harvest Fund	6,661	(6,661)
General Fund	Motor Pool Fund	97,447	(97,447)
Major Street Fund	Local Street Fund	6,278	(6,278)
Local Street Fund	General Fund	391	(391)
Local Street Fund	Major Street Fund	3,653	(3,653)
Revolving Loan Fund	General Fund	9,873	(9,873)
Electric Fund	General Fund	34,005	(34,005)
Electric Fund	Motor Pool Fund	1,523	(1,523)
Sewer Fund	General Fund	38,186	(38,186)
Sewer Fund	Motor Pool Fund	1,972	(1,972)
Water Fund	Sewer Fund	38,502	(38,502)
Water Fund	Motor Pool Fund	414	(414)
Motor Pool Fund	Major Street Fund	1,621	(1,621)
Motor Pool Fund	Local Street Fund	1,435	(1,435)
		<u>\$ 242,507</u>	<u>\$ (242,507)</u>

The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund transfers reported in the fund statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Wine and Harvest Festival Fund	\$ 10,000
General Fund	Motor Pool Fund	5,000
		<u>\$ 15,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6: ADVANCES TO/FROM OTHER FUNDS

Advances between funds bear interest at a rate of three percent, payable monthly, with principal due on demand. The composition of inter-fund advances receivable and payable at February 28, 2007 is as follows:

<u>Advance to</u>	<u>Advance from</u>	
General Fund	Water Fund	\$ 111,025
Electric Fund	Sewer Fund	590,920
Electric Fund	Water Fund	213,784
		<u>\$ 915,729</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE 7: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At year end, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Notes/Loans	\$ 300,799	\$ -

NOTE 8: LONG-TERM LIABILITIES

The Village may issue bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Other long-term liabilities include compensated absences.

The following is a summary of debt transactions of the Village for the year ended February 28, 2007:

<u>Types of Indebtedness</u>	<u>March 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>February 28, 2007</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Compensated absences payable	\$ 227,981	\$ -	\$ 28,667	\$ 199,314	\$ -
<u>Business-type Activities</u>					
Michigan Drinking Water Revolving Loan due in annual amounts of \$40,000-52,340 plus interest at 2.5% through 2019.	\$ 597,340	\$ -	\$ 40,000	\$ 557,340	\$ 40,000
Sewage Disposal System Bonds, Series 2000, due in annual amounts of \$25,000-75,000 plus interest at 4.4-5.25% through 2020.	660,000	-	25,000	635,000	30,000
Water Supply System No. 1 Refunding Bonds, due in annual amounts of \$105,000-120,000 plus interest at 4.0-4.55% through 2013.	795,000	-	110,000	685,000	110,000
Compensated absences payable	58,663	5,612	-	64,275	-
Total business-type activities	\$ 2,111,003	\$ 5,612	\$ 175,000	\$ 1,941,615	\$ 180,000

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

Annual debt service requirements to maturity for all outstanding debt (excluding compensated absences payable) as of February 28, 2007 are as follows:

<i>Year Ended</i> <i>February 28.</i>	<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2008	\$ 180,000	\$ 73,552	\$ 253,552
2009	180,000	66,643	246,643
2010	180,000	59,701	239,701
2011	205,000	52,523	257,523
2012	205,000	44,163	249,163
2013-2017	625,000	119,754	744,754
2018-2020	302,340	18,960	321,300
	<u>\$ 1,877,340</u>	<u>\$ 435,296</u>	<u>\$ 2,312,636</u>

NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental and business-type activities in the aggregate are as follows:

	<i>Governmental</i> <i>Activities</i>	<i>Business-type</i> <i>Activities</i>	<i>Component</i> <i>Unit - DDA</i>
Receivables:			
Property taxes	\$ 74,618	\$ -	\$ 96,152
Accounts	52,115	719,805	-
Notes receivable	300,799	-	71,620
Intergovernmental	343,725	-	176,117
Total receivables	<u>\$ 771,257</u>	<u>\$ 719,805</u>	<u>\$ 343,889</u>
Accounts payable and accrued expenses:			
Accounts payable	\$ 109,369	\$ 242,564	\$ 4,179
Accrued payroll and related liabilities	55,108	23,509	291
Intergovernmental	178,442	-	3,290
Customer deposits	-	62,650	-
Accrued interest payable	-	28,698	-
Total accounts payable and accrued expenses	<u>\$ 342,919</u>	<u>\$ 357,421</u>	<u>\$ 7,760</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

NOTE 10: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for workers' compensation claims and medical claims, and participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to general liability and property and crime liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Village. The Village maintains a deposit with the risk pool of \$66,220 to cover such claims.

NOTE 11: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Village participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the Village's competitive bargaining units and requires a contribution from the employees of between 3-5 percent. The Village is required to contribute at actuarially determined rates; the current rates ranged from 6.46-25.17 percent of eligible payroll based on the December 31, 2004 valuation. Benefits vest after 10 years of service. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.50 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC.

Annual Pension Costs – For the year ended February 28, 2007, the Village's annual pension cost of \$108,580 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases. Both (i) and (ii) include an inflation component of 4.5%. All are determined using techniques that smooth the effects of short-term volatility over a four year period.

NOTES TO FINANCIAL STATEMENTS

February 28, 2007

Three year trend information:

	<i>Fiscal Years Ended February 28,</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
Annual pension cost	\$ 108,580	\$ 88,127	\$ 47,304
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

NOTE 12: FUND EQUITY

Specific reservations on fund equity include:

Reserved for long-term advance – This reserve was created to indicate that portion of fund balance representing the long-term advance receivable.

Reserved for risk pool deposit – This reserve represents the deposit the Village maintains with the Michigan Municipal Risk Management Authority risk pool program to cover loss claims.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF PAW PAW

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended February 28, 2007

<i><u>Actuarial Valuation Date</u></i>	<i><u>12/31/06</u></i>	<i><u>12/31/05</u></i>	<i><u>12/31/04</u></i>
Actuarial Value of Assets	\$ 5,553,860	\$ 5,299,698	\$ 5,056,737
Actuarial Accrued Liability (AAL)	5,878,098	5,661,860	5,243,455
Unfunded AAL (UAAL)	324,238	362,162	186,718
Funded Ratio	94%	94%	96%
Covered Payroll	1,377,429	1,388,816	1,218,113
UAAL as a percentage of covered payroll	24%	26%	15%

VILLAGE OF PAW PAW

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2007

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
Revenues:				
Property taxes	\$ 888,200	\$ 878,200	\$ 838,236	\$ (39,964)
Licenses and permits	99,300	55,100	58,561	3,461
State grants	525,800	551,200	547,266	(3,934)
Contributions from other units	87,300	47,300	47,300	-
Charges for services	673,600	593,020	562,541	(30,479)
Fines and forfeits	17,300	23,600	22,665	(935)
Interest and rents	33,200	30,600	42,205	11,605
Other revenue	77,150	109,100	62,673	(46,427)
Total revenues	2,401,850	2,288,120	2,181,447	(106,673)
Expenditures:				
Current				
General government	251,900	263,285	228,456	(34,829)
Public safety	949,980	915,480	855,212	(60,268)
Public works	872,250	659,650	586,212	(73,438)
Community and economic development	43,850	36,650	34,497	(2,153)
Recreation and culture	240,500	168,000	132,999	(35,001)
Other	197,690	157,500	142,062	(15,438)
Capital outlay	119,500	278,500	212,002	(66,498)
Total expenditures	2,675,670	2,479,065	2,191,440	(287,625)
Excess (deficiency) of revenues over expenditures	(273,820)	(190,945)	(9,993)	180,952
Other financing sources (uses):				
Transfers to other funds	(15,000)	(15,000)	(15,000)	-
Total other financing sources (uses)	(15,000)	(15,000)	(15,000)	-
Net change in fund balance	(288,820)	(205,945)	(24,993)	180,952
Fund balance, beginning of year	879,301	879,301	879,301	-
Fund balance, end of year	\$ 590,481	\$ 673,356	\$ 854,308	\$ 180,952

VILLAGE OF PAW PAW

SPECIAL REVENUE FUND – REVOLVING LOAN FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2007

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
Revenues:				
Interest and rents	\$ 10,000	\$ 18,000	\$ 20,771	\$ 2,771
Loan repayments	97,600	125,300	104,540	(20,760)
Total revenues	107,600	143,300	125,311	(17,989)
Expenditures:				
Current				
General government	194,550	261,900	58,317	(203,583)
Total expenditures	194,550	261,900	58,317	(203,583)
Net change in fund balance	(86,950)	(118,600)	66,994	185,594
Fund balance, beginning of year	416,686	416,686	416,686	-
Fund balance, end of year	<u>\$ 329,736</u>	<u>\$ 298,086</u>	<u>\$ 483,680</u>	<u>\$ 185,594</u>

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended February 28, 2007

Current Taxes:

Property taxes	\$ 700,389
Trailer tax	407
Penalties and interest on taxes	4,647
Payment in lieu of taxes	132,793
	<u>838,236</u>

Licenses and permits:

Nonbusiness licenses and permits	40,120
CATV franchise fees	18,441
	<u>58,561</u>

State Grants:

Liquor license fees	4,954
State revenue sharing - sales tax	343,467
MEDC	193,800
Police	5,045
	<u>547,266</u>

Contribution from other units:

DDA - administrative expense	<u>47,300</u>
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Charges for services:

Recreation fees	171
Zoning fees	2,950
Administrative charge to other funds	559,420
	<u>562,541</u>

Fines and forfeits:

Traffic and parking fines	2,166
Court cost reimbursements	20,499
	<u>22,665</u>

Interest and rents:

Interest	28,019
Rents	14,186
	<u>42,205</u>

Other Revenue:

Sale of fixed assets	292
Reimbursements	9,833
Loan repayments	46,482
Other	6,066
	<u>62,673</u>

Total revenues	<u>\$ 2,181,447</u>
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VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended February 28, 2007

Expenditures:

General Government:

Governmental:

Personnel	\$ 99,145
Fringe benefits	33,301
Supplies	8,284
Contracted services	13,427
Telephone	5,004
Dues and memberships	843
Education and training	1,924
Printing and publications	920
Utilities	5,686
Repairs and maintenance	3,774
Equipment rental	32
Other	26,272
	<u>198,612</u>

Audit:

Contracted services	<u>13,385</u>
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Legal:

Contracted services	<u>16,459</u>
Total general government	<u>228,456</u>

Public Safety:

Law Enforcement:

Personnel	554,138
Fringe benefits	130,208
Supplies	11,329
Contracted services	16,395
Telephone	5,422
Dues and memberships	258
Education and training	2,707
Printing and publications	589
Utilities	2,650
Repairs and maintenance	4,138
Equipment rental	63,586
Other	923
	<u>792,343</u>

Fire:

Repairs and maintenance	<u>10,416</u>
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VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended February 28, 2007

Expenditures, continued:

Public Safety, continued:

Building Inspection:

Personnel	9,899
Fringe benefits	2,461
Contracted services	40,093
	<u>52,453</u>
 Total public safety	 <u>855,212</u>

Public Works:

Public Services:

Personnel	214,063
Fringe benefits	65,174
Supplies	16,470
Contracted services	28,740
Telephone	10,771
Dues and memberships	140
Education and training	1,024
Utilities	13,645
Repairs and maintenance	13,047
Equipment rental	158,724
Other	520
	<u>522,318</u>

Street Lighting:

Utilities	63,894
	<u>63,894</u>
 Total public works	 <u>586,212</u>

Community and Economic Development:

Planning:

Personnel	17,688
Fringe benefits	5,838
Supplies	370
Contracted services	8,049
Dues and memberships	1,360
Conferences and workshops	100
Printing and publications	1,078
Other	14
	<u>34,497</u>

VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended February 28, 2007

Expenditures, continued:

Recreation and Culture:

Recreation and Parks:

Personnel	30,146
Fringe benefits	11,987
Supplies	2,818
Contracted services	70,820
Utilities	2,678
Repairs and maintenance	486
Equipment rental	14,044
Other	20
	<u>132,999</u>

Other:

Insurance	<u>142,062</u>
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Capital Outlay:

General government	4,129
Public safety	19,139
Public works	180,441
Recreation and culture	8,293
	<u>212,002</u>

Total expenditures	<u>2,191,440</u>
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Other Financing Uses:

Transfers to other funds	<u>15,000</u>
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Total expenditures and other financing uses	<u>\$ 2,206,440</u>
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VILLAGE OF PAW PAW

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

Year Ended February 28, 2007

	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Wine and Harvest Festival Fund</i>	<i>Total Nonmajor Governmental Funds</i>
Assets:				
Cash and cash equivalents	\$ 109,852	\$ 232,617	\$ 9,600	\$ 352,069
Taxes receivable	19,542	1,538	-	21,080
Due from other governmental units	29,839	11,483	-	41,322
Due from other funds	6,278	4,045	-	10,323
Total assets	<u>\$ 165,511</u>	<u>\$ 249,683</u>	<u>\$ 9,600</u>	<u>\$ 424,794</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 13,197	\$ 4,753	\$ 1,245	\$ 19,195
Accrued expenses	2,386	1,599	-	3,985
Due to other governmental units	419	38	-	457
Due to component unit	19,568	30,607	-	50,175
Due to other funds	5,820	7,714	6,661	20,195
Total liabilities	<u>41,390</u>	<u>44,711</u>	<u>7,906</u>	<u>94,007</u>
Fund balances:				
Unreserved:				
Special revenue funds	<u>124,121</u>	<u>204,972</u>	<u>1,694</u>	<u>330,787</u>
Total fund balances	<u>124,121</u>	<u>204,972</u>	<u>1,694</u>	<u>330,787</u>
Total liabilities and fund balances	<u>\$ 165,511</u>	<u>\$ 249,683</u>	<u>\$ 9,600</u>	<u>\$ 424,794</u>

VILLAGE OF PAW PAW

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 28, 2007

	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Wine and Harvest Festival Fund</i>	<i>Total Nonmajor Governmental Funds</i>
Revenues:				
Property taxes	\$ 124,748	\$ 186,108	\$ -	\$ 310,856
State grants	169,335	70,015	-	239,350
Contributions from other units	20,883	32,663	-	53,546
Charges for services	-	-	18,252	18,252
Interest and rents	2,915	5,539	5,515	13,969
Other revenue	543	-	15,361	15,904
Total revenues	318,424	294,325	39,128	651,877
Expenditures:				
Current				
Public works	191,328	179,938	-	371,266
Recreation and culture	-	-	49,734	49,734
Loan payment to General Fund				
Principal	45,192	-	-	45,192
Interest and fees	1,290	-	-	1,290
Total expenditures	237,810	179,938	49,734	467,482
Excess (deficiency) of revenues over expenditures	80,614	114,387	(10,606)	184,395
Other financing sources (uses):				
Transfers from other funds	-	-	10,000	10,000
Total other financing sources (uses)	-	-	10,000	10,000
Net change in fund balances	80,614	114,387	(606)	194,395
Fund balances, beginning of year	43,507	90,585	2,300	136,392
Fund balances, end of year	\$ 124,121	\$ 204,972	\$ 1,694	\$ 330,787

VILLAGE OF PAW PAW

COMPONENT UNIT

BALANCE SHEET

February 28, 2007

	<u><i>Downtown Development Authority</i></u>
Assets:	
Cash and cash equivalents	\$ 447,914
Taxes receivable	93,943
Notes receivable	71,620
Due from primary government	<u>176,117</u>
Total assets	<u>\$ 789,594</u>
Liabilities and Fund Balance:	
Liabilities:	
Accounts payable	\$ 4,178
Accrued expenses	291
Due to primary government	3,290
Deferred revenue	<u>71,620</u>
Total liabilities	<u>79,379</u>
Fund balance:	
Unreserved	<u>710,215</u>
Total fund balance	<u>710,215</u>
Total liabilities and fund balance	<u>\$ 789,594</u>
RECONCILIATION OF FUND BALANCE TO NET ASSETS:	
Fund balance for component unit	\$ 710,215
Total net assets reported for the component unit in the statement of of net assets is different because:	
Capital assets used in the component unit are not financial resources and therefore are not reported in the component unit fund statements.	
Capital assets	58,634
Less accumulated depreciation	(2,266)
Deferred revenues reported in the governmental funds are recognized as revenues for the governmental activities.	
Notes	<u>71,620</u>
Net assets of component unit	<u>\$ 838,203</u>

VILLAGE OF PAW PAW

COMPONENT UNIT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

Year Ended February 28, 2007

	<u><i>Downtown Development Authority</i></u>
Revenues:	
Property taxes	\$ 260,137
Interest and rents	21,779
Other revenue	<u>24,276</u>
Total revenues	<u>306,192</u>
Expenditures:	
Current	
Community and economic development	136,289
Capital outlay	<u>6,620</u>
Total expenditures	<u>142,909</u>
Net change in fund balance	163,283
Fund balance, beginning of year	<u>546,932</u>
Fund balance, end of year	<u><u>\$ 710,215</u></u>
RECONCILIATION OF NET CHANGE IN FUND BALANCE TO CHANGE IN NET ASSETS:	
Net change in fund balance - component unit	\$ 163,283
Total change in net assets reported for the component unit in the statement of activities is different because:	
Component unit fund statements report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	2,900
Less depreciation expense	(2,266)
Collection of certain items recorded as deferred revenue are considered current financial resources in the governmental funds. In the statement of activities, these items have been recorded as revenue.	
Notes	<u>(8,505)</u>
Change in net assets of component unit	<u><u>\$ 155,412</u></u>

VILLAGE OF PAW PAW

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 28, 2007

MICHIGAN DRINKING WATER REVOLVING LOAN

Issue dated September 28, 1998 in the amount of \$ 830,000

Less: Principal paid in prior years (232,660)
 Principal paid in current year (40,000)

Balance payable at February 28, 2007 \$ 557,340

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due April 1</i>	<i>Interest due October 1</i>	<i>Principal due October 1</i>	<i>Total Annual Requirement</i>
2008	2.50%	\$ 6,938	\$ 6,437	\$ 40,000	\$ 53,375
2009	2.50%	6,438	5,937	40,000	52,375
2010	2.50%	5,938	5,437	40,000	51,375
2011	2.50%	5,438	4,937	40,000	50,375
2012	2.50%	4,938	4,375	45,000	54,313
2013	2.50%	4,375	3,750	50,000	58,125
2014	2.50%	3,750	3,125	50,000	56,875
2015	2.50%	3,125	2,500	50,000	55,625
2016	2.50%	2,500	1,875	50,000	54,375
2017	2.50%	1,875	1,250	50,000	53,125
2018	2.50%	1,250	625	50,000	51,875
2019	2.50%	625	-	52,340	52,965
		<u>\$ 47,190</u>	<u>\$ 40,248</u>	<u>\$ 557,340</u>	<u>\$ 644,778</u>

VILLAGE OF PAW PAW

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 28, 2007

SEWAGE DISPOSAL SYSTEM BONDS, SERIES 2000

Issue dated January 1, 2001 in the amount of	\$	750,000
Less: Principal paid in prior years		(90,000)
Principal paid in current year		<u>(25,000)</u>
Balance payable at February 28, 2007	\$	<u>635,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Principal due April 1</i>	<i>Interest due October 1</i>	<i>Interest due October 1</i>	<i>Total Annual Requirement</i>
2008	4.45%	\$ 30,000	\$ 15,666	\$ 14,999	\$ 60,665
2009	4.50%	35,000	14,999	14,211	64,210
2010	4.55%	35,000	14,211	13,415	62,626
2011	4.60%	40,000	13,415	12,495	65,910
2012	4.70%	40,000	12,495	11,555	64,050
2013	4.80%	45,000	11,555	10,475	67,030
2014	4.90%	45,000	10,475	9,373	64,848
2015	5.00%	50,000	9,373	8,123	67,496
2016	5.05%	55,000	8,123	6,734	69,857
2017	5.10%	60,000	6,734	5,204	71,938
2018	5.15%	60,000	5,204	3,659	68,863
2019	5.20%	65,000	3,659	1,969	70,628
2020	5.25%	<u>75,000</u>	<u>1,969</u>	<u>-</u>	<u>76,969</u>
		\$ <u>635,000</u>	\$ <u>127,878</u>	\$ <u>112,212</u>	\$ <u>875,090</u>

VILLAGE OF PAW PAW

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 28, 2007

WATER SUPPLY SYSTEM NO. 1 REFUNDING BONDS

Issue dated February 13, 2001 in the amount of	\$	1,195,000
Less:		
Principal paid in prior years		(400,000)
Principal paid in current year		<u>(110,000)</u>
Balance payable at February 28, 2007	\$	<u>685,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due May 1</i>	<i>Interest due November 1</i>	<i>Principal due November 1</i>	<i>Total Annual Requirement</i>
2008	4.05%	\$ 14,756	\$ 14,756	\$ 110,000	\$ 139,512
2009	4.15%	12,529	12,529	105,000	130,058
2010	4.25%	10,350	10,350	105,000	125,700
2011	4.35%	8,119	8,119	125,000	141,238
2012	4.45%	5,400	5,400	120,000	130,800
2013	4.55%	<u>2,730</u>	<u>2,730</u>	<u>120,000</u>	<u>125,460</u>
		<u>\$ 53,884</u>	<u>\$ 53,884</u>	<u>\$ 685,000</u>	<u>\$ 792,768</u>



REPORT ON INTERNAL CONTROL

To The Village Council
Village of Paw Paw

In planning and performing our audit of the financial statements of the Village of Paw Paw as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Paw Paw's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not find material internal control weaknesses. We did, however, note some control deficiencies that we want to bring to your attention as follows:

Void Checks

As part of our test of cash disbursement controls, we could not verify a voided check. The original void check document could not be located. To maintain good internal control, it is necessary that all void checks be retained and properly mutilated (not shredded or otherwise destroyed).

Wine & Harvest Festival

The various controls related to the receipts from the Wine & Harvest Festival were reviewed with the Village Finance Director. We noted that strict control procedures over the related event or ticket sales have not always been adequately designed, implemented or enforced. Just as with other Village funds, and even though the Wine & Harvest Festival is handled, in most respects, by unpaid volunteers, the Village must require adherence to proper control procedures.

This communication is intended solely for the information and use of management, board of directors, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

July 18, 2007